climate 100
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From Luxury to Necessity: Budgeting for Climate Action

Summary

California policy makers have set world-leading climate goals for our State. However, we have fallen behind in achieving these goals in part because many of the required investments have not materialized. California's budget has the ability to create as well as transform markets not only through what the State purchases, but also through how our state agencies implement and enforce our ambitious climate policies. Given the scale of the climate crisis and the urgency we face, the State cannot afford to treat the climate crisis as a niche spending category and programs to address climate change as "extras" to be pursued only in times of plenty.

To achieve our climate goals and combat the climate crisis with the urgency it deserves, California must integrate climate action into every aspect of what the State does – from what vehicles taxpayer dollars purchase to how we manage federal funds for schools, roads, and other infrastructure. One hundred percent of our actions should be consistent with what addressing the climate crisis requires: we should not be supporting activities that hamper our ability to rapidly cut climate pollution or that reduce our ability to withstand climate-related harms. We can only meet the challenge ahead if the State budgets accordingly.

As a first step towards understanding the transformative change that will be required, this Issue Brief analyzes the climate programs in the Governor's proposed 2022-2023 January budget. We analyze these proposals in the context of the budget as a whole, the breadth of state operations, budget conditions in recent years, and likely challenges in the future.

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This year's proposed budget increases the overall level of climate spending and moves California closer to an "all-of-government" approach to the climate crisis. But the State will need to more fully integrate climate action across government to meet our climate targets and truly bring about the necessary level of change.

This new approach will require that policy makers:

1. Integrate as much climate activity into existing and/or new ongoing funding streams as possible, rather than continuing to rely on one-time funds;

2. Build climate investments into core government services annually and accelerate these investments during times of budget surplus; and

3. Seize the opportunity to leverage the ongoing activities of each department into the struggle to prevent the worst effects of climate change.

In short, California must budget to address the existential threat the climate crisis poses as if it were a necessity, not a luxury.

These steps will be needed to ensure that climate funding remains at consistent levels, and that California can achieve its climate commitments regardless of whether the State enjoys continued budget surpluses or faces an economic downturn. They will also help the State to align the significant amount of federal funding flowing to California into an all-of-government climate framework.

CLIMATE BUDGET BASICS

While we refer to it as "the Budget," what the Governor proposes each January is more properly considered "changes to last year's Budget." Policy makers focus on Budget Change Proposals or new spending proposed by the Administration, rather than existing baseline spending. Departments continue to operate programs with funding that has already been allocated for them. One consequence of this type of budgeting is that when this Issue Brief discusses the Climate Budget, it necessarily reflects only a portion of climate-related activities carried on by the State.

The baseline budget accounts for $265 billion of the $286 billion budget proposed for 2022-2023. The additional $21 billion is "surplus" – revenue that is coming in above what the State projected during the last budget. The proposed $22 billion Climate Budget is approximately the same size as this year's surplus, but this is not an apples-to-apples comparison: the Climate Budget is spread over multiple years.

Of the $286 billion proposed for 2022-23, $15.5 billion is in the proposed Climate Budget package – about 5.4% of the single-year budget.

The proposed $22.5 billion Climate Budget also reflects some mandatory spending. For example, $1.1 billion comes from California's Cap-and-Trade program for greenhouse gas emissions, and is required to be spent on climate programs. Another $4.2 billion would be allocated from a bond that can only be spent on High-Speed Rail. $1.5 billion is allocated from funding that must go to schools (also known as "Prop 98" funding). The remaining $15.3 billion in the Climate Budget would come from the State's General Fund and can be spent in any constitutionally permissible way.

Background

California must, by statute, reduce global warming pollutants by at least forty percent below 1990 levels by 2030, and has adopted goals via Executive Order to reduce emissions 80 percent by 2050 and achieve carbon neutrality by 2045. To meet the 2030 target, to say nothing of the longer-term goals, the State will need to significantly increase the rate by which it cuts pollution. The Air Resources Board's current estimates of 2020 and 2021 greenhouse gas emissions show that the State continues to reduce greenhouse gases at an average rate of approximately 1% per year compared to 1990 levels. To achieve a 40% emissions reduction in 2030, the State will need to nearly quadruple the current rate of reductions.[1]

Meanwhile, climate impacts to the State have grown increasingly severe, and will only continue to accelerate. The Legislative Analyst's Office recently issued a series of reports finding that the climate crisis will have sweeping and devastating effects across California. In the coming decades, they warn that extreme heat may kill as many people as automobile collisions do today, with wildfire smoke killing more than twice that number. More heat, smoke, and other extreme conditions will cause increasingly frequent school closures and unsafe working conditions for laborers.[2]

To prepare for these impacts and meet the State's climate commitments, California will need to operate in novel ways. We must develop aggressive new climate policies which utilize the full range of tools the State has available, including the State's significant spending power. California remains the largest economy in the United States and is currently ranked as the fifth largest economy in the world. This gives California the unique opportunity to make significant investments needed to fully implement the climate policies pioneered by the State.

THE SHOPP GUIDELINES[3]

The California transportation agencies will oversee the expenditure of $17.9 billion over four years in the 2022 State Highway Operation and Protection Program (SHOPP). But SHOPP spending guidelines do not incorporate the principles laid out in the State's Climate Action Plan for Transportation Infrastructure. Misaligned highway spending risks canceling out the benefits of electric vehicle and sustainable communities policies by building freeways that increase air pollution, traffic, and health impacts. Transportation agencies can address this disconnect in upcoming SHOPP guidance revisions, and Assemblymember Laura Friedman's proposed AB 2438 would improve integration of climate policies across many transportation programs, including the SHOPP.

California's 2022-23 Proposed Climate Budget

The State's annual budget, which this year may exceed $300 billion before it is enacted, is among the most powerful tools the State can wield to reduce greenhouse gases. The easiest way to measure any public policy investment is to measure the gross dollars allocated for its implementation in the State Budget. The Governor's 2022-23 Budget proposes a historic level of investment in climate programs: more than $22 billion in climate-related spending, which would build upon a climate budget of over $15 billion enacted by the Legislature in 2021. If the Legislature approves or increases the level of funding in the Governor's January budget proposal, it would represent one of the largest investments in climate action by any government, globally.

But the topline gross investment amount only tells part of the story. To assess the long-term effectiveness of these investments, we must also account for whether the funding allocation will be consistent over time and if the funding can be guarded during budgetary deficits. When these factors are taken into account, we see that

THE GANN LIMIT[4]

In 1979, conservative activists succeeded in imposing an appropriations limit (aka the Gann Limit) on the State and local governments via a ballot initiative.[5] As a result, and due to overlapping constitutional budget requirements, revenues above the limit actually cost the State money, so that $1 received by the State triggers $1.60 in spending requirements. This year and in coming years the Gann limit may cause significant burdens on the State's ability to maintain services. As long as the limit is in place, it is critical that California integrate climate action into existing state operations, rather than fund these actions with surplus revenues and one-time expenditures.

this significant level of proposed investment faces several limitations that must be overcome for California to ensure the type of sustained, effective climate investment that we need in order to meet our 2030 targets and beyond.

ADDRESSING THE CLIMATE CRISIS REQUIRES SUSTAINED FUNDING

The combined level of investment offered in the 2021-22 and proposed 2022-23 budgets – over $37 billion – is sorely needed. This amount represents progress from previous years, but it is important to note that it is spread over a six-year time horizon, and is well below what can be achieved with a more fully-integrated approach to climate across all parts of government. Equally concerning, though, is the prospect for subsequent years' investments. Virtually all (nearly 99%) of the total funding in the combined $37 billion package is one-time funding. One-time funding, despite its name, may be spread across several years. However, once the funding has run out, the program will end and status quo practices will resume unless the Legislature acts to authorize new funding.

When we don't have a surplus in the discretionary General Fund, California loses funds devoted to climate change.

	2020-21	2021-22	2022-23
Total General Fund Surplus	$0M	$47B	$20.6B
Total General Fund Climate Investment	$0M	$13.2B	$15.3B

The Governor's proposal front-loads much of the one-time funding in the first several fiscal years with $15 billion of the $22.5 billion proposed in the first year. In the context of these budget proposals, it is reasonable to take this approach both because much of what is proposed includes large one-time capital outlays (for transit infrastructure, high speed rail, and other one-time investments) and also because swift action on climate is sorely needed.

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But California's budget fortunes are famously volatile with many surplus years followed immediately by significant budget deficits. One-time funding can easily be stopped during budget deficits, and even during good budget years it requires advocacy to remain at intended funding levels in the face of competing policy interests. Interest groups that oppose aggressive climate investments may fail one year and succeed in subsequent years. Consequently, there is no guarantee that the proposed funding levels in this budget will ultimately materialize.

To prevent backsliding, policy makers should work to integrate as much climate activity into existing and/or new ongoing funding streams as possible, rather than continuing to rely on one-time funds.

TO LEAD ON CLIMATE, WE MUST GO BIG – EVEN IN LEAN BUDGET YEARS

The budgets adopted in 2021 and proposed in 2022 reflect multi-billion dollar budget surpluses. Absent this additional funding, which is unlikely to recur consistently each year, the State will be limited in scaling up ongoing climate efforts.

The Governor's Proposed 2022-23 Budget represents a high-water mark for climate spending in California. Climate spending has been consistently highlighted by the current Administration, but under the current approach its fortune largely depends upon unexpected budget surpluses.

To understand the growth of climate investments over the last several years, it is helpful to measure the total amount of discretionary General Fund dollars available in a given year and the percentage of those funds devoted to climate change. Because so much of the General Fund is locked in to the baseline and special funds such as the Greenhouse Gas Reduction Fund must be spent in largely predetermined ways, this discretionary portion of the General Fund provides the best window into the extent that an administration prioritizes climate action among other spending options.

In a budgetary crunch, the State will focus on mandatory spending and spending on climate will likely be reduced and viewed as discretionary. For example, during the COVID pandemic, the Administration was forced to abandon most climate proposals between the Governor's January Budget and May Revision in 2020-21. Although the pandemic was a unique economic factor, the California Environmental Protection Agency budget saw a loss of 38% in year over year funding in the 2020-21 Budget and an 83% reduction in General Fund dollars.[6]

To tackle the enormity of the climate crisis, climate investments must be built-in to core government services and be accelerated during budget surpluses. Policymakers will need to better align long-term climate needs with ongoing funding and guarantee a minimum amount of funding towards climate initiatives to provide the sustained investments necessary to rapidly transform our state's economy and achieve our climate goals.

The Governor's proposed allocation of more General Fund resources is a step in the right direction, and his proposal to apply $1.5 billion of education funding towards the purchase of zero-emission school buses is an excellent example of how climate action can be integrated both into the missions of more departments and across the entirety of the State Budget.

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This investment, paired with potential policy changes such as the proposed target in Assemblymember Ting's AB 2731 that by 2035 all new school buses to be zero-emission, can help to reach a segment of high-polluting vehicles that has historically been very difficult to reach through air quality laws and incentives not specifically tailored to school buses.[7] Another bill pending before the legislature, AB 1110, by Assemblymember Robert Rivas, would task the Governor's Office of Business and Economic Development and the Department of General Services with helping small government entities (such as rural school districts) gain access to technical assistance and funding support to accelerate the transition to zero emission vehicles.[8]

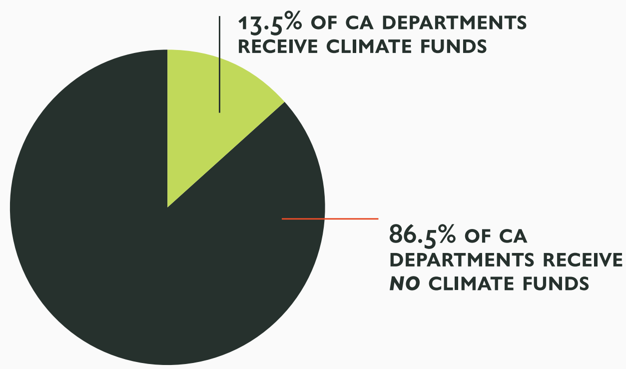
For many years climate change investments have been relegated to special funds (e.g., Air Pollution Control Fund, Greenhouse Gas Reduction Fund). Notably, in the Governor's Proposed 2022-23 Budget, significant General Fund dollars are allocated for climate change proposals. (See Box: Climate Budget Basics, page 3) Having a variety of funding sources, including both the General Fund, special funds, and other sources of funding, can provide more investment overall. It also guards against major revenue decreases in any one specific fund and the corresponding reductions in spending. A bill proposed by Senator John Laird, SB 1020, would create a Climate Trust Fund, which may provide a novel means of allocating funding to climate-related programs that might otherwise lack an appropriate funding source.[9] Tapping a diversity of existing and potential new funding sources, such as a Trust Fund like the one Senator Laird proposes or others, will be especially important for programs funded primarily by one-time funding, rather than ongoing programmatic funding.

While the Governor's proposed budget in 2022 includes funding from multiple funding sources and requires many government agencies to incorporate climate action into their operations, climate is still treated as distinct from the primary missions of most agencies and is not fully incorporated into all state spending decisions. With siloed climate programs in the budget, the State has no assurance that its programs and investments will not come into conflict with the State's greenhouse gas reduction goals, the need to prepare for and mitigate against climate-related harms, or other programs the State is funding to promote climate resilience.

MOVING TOWARDS AN ALL-OF-GOVERNMENT APPROACH TO CLIMATE BUDGETING

Of the 236 statewide departments in California's state government, 190 are named in the Governor's proposed budget (meaning the Governor is not proposing changes to the ongoing budgets of the remaining 46 departments). Of these 190, 32 departments are named in the Climate Budget. Funding climate programs and actions across 32 state departments represents significant progress towards an all-of-government approach to the climate crisis.

Of the 236 statewide departments in California's state government, only 32 departments receive climate-related funds.



But every department has a role to play in addressing the climate crisis, not just the 32 with explicit climate budgets. The climate crisis affects the ability of all 236 departments to succeed in their missions, and each department can play a part in implementing solutions. A bill proposed by Senator Becker, SB 1203, would help to address the disconnect between agency operations and the State's climate goals.[10] This bill would require all state agencies to develop and publish plans for how they plan to achieve net-zero greenhouse gas emissions from their operations by 2035. The bill would not, however, require agencies to ensure their discretionary regulatory activities are consistent with state climate goals.

It is also notable that climate funding is heavily concentrated in a handful of agencies – of the full $22.5 billion, $20.1 is allocated to nine agencies. This concentration is due in part to the nature of existing agency missions (the

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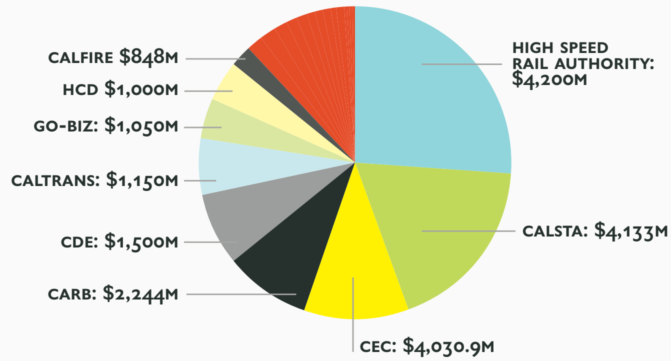
$20.1 of the total $22.5 billion that agencies receive, is allocated to only 9 of the 32 agencies.



Air Resources Board and the Energy Commission, for example administer many of the State's programs to promote vehicle electrification and other climate programs), but it is also connected to restrictions placed on funding from some sources.

For example, the single largest allocation is $4.2 billion to the High Speed Rail Authority. This funding comes from a bond that can only be disbursed to support High Speed Rail. Similarly, $1.5 billion goes to the Department of Education out of the minimum funding level for schools required under Proposition 98. Most of this funding goes to support teachers, students, and other educational programs and school operations that are more difficult to connect with the climate crisis. Using a portion of this funding in the manner the Governor proposes is consistent with our call for mobilizing funding and programs from all parts of government, including those that are not traditionally considered among likely candidates for climate projects.

> ***"While funding conditions and agency missions vary, policymakers should seize the opportunity to leverage the ongoing activities of each department to bring what they can to the struggle to prevent the worst effects of climate change."***

California could expand on this approach by mobilizing more of the school facilities budget to ensure that schools are built to be engines of climate resilience and emissions. A useful intermediary step here would be to develop a statewide school sustainability and resilience plan. With such a plan in place, because school facilities are largely financed by voter approved bonds, all future school bonds could be written in a manner that is climate aligned. A similar process could also help ensure that other infrastructure bonds, including those for housing, government facilities, transportation, and parks also align with the State's climate policies.

Through a scaled-up version of policies like those proposed in the Governor's budget, the State could establish both a framework and a funding source to ensure facilities construction and maintenance budgets leverage the opportunity to create long-term cost savings and health benefits for California schools, teachers, and students through climate-smart investments.

While funding conditions and agency missions vary, policymakers should seize the opportunity to leverage the ongoing activities of each department to bring what they can to the struggle to prevent the worst effects of climate change.

SCHOOL FACILITIES[11]

The Governor's proposed budget would allocate nearly $3.7 billion to school construction projects over two years. California school districts currently spend nearly $16 billion annually to build, maintain, and operate school facilities.[12] Given that the State pays interest on bonds across 30 years, all school facilities should now be climate resilient and decarbonized so these facilities last the next 30 years as climate conditions deteriorate. With appropriate spending guidelines, these tens of billions of dollars could be put to work in a way that ensures schools run on 100% clean energy, serve as resilience hubs, and provide locations for outdoor access and emergency services in their communities.

Conclusion

NextGen Policy's Climate 100 project is focused on showing how California can use the full power of the state budget in its efforts to address the climate crisis. California will not succeed in accelerating pollution reductions to the level required to meet its climate targets if climate investments continue to be tethered to the boom and bust cycles of California's budget. To make progress, climate funding cannot be dependent upon winning the California budget surplus lottery.

These issues can be addressed by the State committing to achieving 100% climate consistency across the budget wherever discretion exists for the State to manage resources in a climate-smart manner. Hundreds of billions of dollars in agency funding goes to programs that do not take climate pollution or climate impacts into account, but that have major implications for the State's ability to meet its climate goals. Often the policy debate centers on new workload adjustments but given the scarcity and volatility of General Fund dollars, review should be given to base budgets in Departments and Agencies to ensure they are climate-aligned.

THE STATE FLEET[13]

In 2018, California government entities operated over 40,000 vehicles, of which only 834 were zero-emission vehicles (ZEVs). Options for ZEV pick-up trucks are growing rapidly, and virtually all other vehicle types the State uses can be purchased in zero-emission models today at significant long-term cost savings to the State. Senator Nancy Skinner's proposed bill SB 1010 would require all new vehicle purchases by State entities be ZEVs by 2027, putting the State fleet eight years ahead of the statewide 2035 goal of 100% ZEV sales and would be a significant step towards climate-consistent budgeting.

Our State's groundbreaking climate policies must be united with sufficient and predictable State dollars every year. Our existing State programs must also be reviewed and aligned to the State's climate goals across all Departments and Agencies.

Policy makers should pursue a bold, integrated investment strategy that helps reduce greenhouse gas emissions, advances our clean energy targets, fosters equity and prosperity, and builds more resilient communities. Every part of our state government spending (both existing and proposed spending) has the opportunity to help protect our people, our natural resources, and our economy from the worst impacts of the climate crisis. If we rise to this challenge, we will build a more resilient, equitable, and prosperous California.

End Notes

[1] *"Preliminary Estimates of California's 2020 and 2021 Greenhouse Gas Emissions for Budget Item 3900-001-3237" https://ww2.arb.ca.gov/sites/default/files/2022-04/2021%20GHG%20Estimates%20Report%20for%20Item%203900-001-3237%20-%20Remediated.pdf*

[2] *"Climate Change Impacts Across California" https://lao.ca.gov/Publications/Series/1*

[3] *https://catc.ca.gov/-/media/ctc-media/documents/programs/shopp/2022-shopp-document-final-epost-20220329.pdf; https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB2438*

[4] *See NextGen Policy's "Climate Advocate Appropriations Limit Policy Q+A" https://storage.googleapis.com/firedup-launch-climate100/2022/04/220418_Climate100_GannLimit_QandA.pdf*

[5] *State laws adopted to implement Prop 4 can found in Government Code Sections 7900-7914.*

[6] *See https://lao.ca.gov/Publications/Report/4275 and https://www.kqed.org/science/1964349/newsom-proposes-huge-cuts-to-environmental-programs-in-latest-budget*

[7] *https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB2731*

[8] *https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB1110*

[9] *https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220SB1020*

[10] *https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220SB1203*

[11] *https://www.dropbox.com/sh/loyr1ul6yuierop/AABl5KbP8HR6MK9IdVCCj4D6a?dl=0&preview=State+Profiles+2021+-+CA.pdf*

[12] *https://www.ebudget.ca.gov/2022-23/pdf/BudgetSummary/K-12Education.pdf*

[13] *https://www.green.ca.gov/fleet and information from OFAM staff; https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220SB1010*